
Charlevoix-Emmet Intermediate School District and its Local Education Agency - Public Schools of Petoskey

Medicaid School Based Services Program
Financial Audit

For the Period July 1, 2017 through June 30, 2018

Audit Report - Issued October 2022

State of Michigan
Department of Health and Human Services
Bureau of Audit
Audit Division





STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ELIZABETH HERTEL
DIRECTOR

October 11, 2022

Mr. Scott Koziol, Superintendent
Charlevoix-Emmet Intermediate School District
8568 Mercer Road
Charlevoix, Michigan 49702

Dear Mr. Koziol:

Enclosed is the Michigan Department of Health and Human Services (MDHHS) audit report of the Medicaid School Based Services Program financial claims by Charlevoix-Emmet Intermediate School District (CEISD) for the period July 1, 2017 through June 30, 2018. This also included an audit of CEISD's Local Education Agency, Public Schools of Petoskey (PSP). No exceptions were identified for PSP.

The Michigan Department of Health and Human Services (MDHHS) is committed to ensuring high standards of integrity and accountability for public funds. To that end, we periodically perform audits to assess the agency's compliance with fiscal reporting and other requirements contained in MDHHS agreements, and policies and procedures; and Federal regulations.

The final report contains the following: Executive Summary; Exceptions, Recommendations and Corrective Actions; Funding Methodology; Scope and Methodology; and Glossary Abbreviations and Terms.

Thank you for the cooperation extended by your agency throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Tracie Bonner".

Tracie Bonner, Manager
Child Care Fund and Medicaid School Services Program Audit Section
MDHHS – Audit Division

c: Lisa Krosnicki, Charlevoix-Emmet Intermediate School District
Jeff Leslie, Public Schools of Petoskey
Branden Wheeler, Public Schools of Petoskey
Pam Myers, MDHHS, Bureau of Audit
Shannah Havens, MDHHS, Audit Division
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Steve Ireland, MDHHS, Rate Review Section
Cheryl Miller, MDHHS, Audit Division
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EXECUTIVE SUMMARY

Below is a summary of our audit objective, conclusion, and exceptions:

Audit Objective #1 – Financial Reporting	Conclusion
To assess whether Charlevoix-Emmet Intermediate School District (CEISD) and its Local Education Agencies (LEA) effectively developed student claims in accordance with applicable Federal and State requirements.	Not Effective
We identified five exceptions related to Financial Reporting.	

Exception 1 Page 3	Unallowable Costs Reported on Medical Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Random Moment of Time Study, Chapter 3.3
Disallowed Cost	\$114,745
Corrective Action	Detailed payroll download for fiscal year will be downloaded and compared to the staff pool list for the fiscal year.
Completion Date	June 30, 2022
Person Responsible	Lisa Krosnicki, Chief Financial Officer, CEISD Accountant, Lead

Exception 2 Page 4	Unallowable Employee Benefit Costs Reported on Transportation Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Section 6.2A
Disallowed Cost	\$90,193
Corrective Action	Transporter benefits will only be included in the Facilities Settlement reporting. Costs for transportation support will be eliminated from the facilities settlement reporting.
Completion Date	June 30, 2022
Person Responsible	Lisa Krosnicki, Chief Financial Officer, CEISD Accountant, Lead

Exception 3 Page 5	Unallowable Other Supply/Repair Parts Reported on Transportation Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Section 6.2A
Disallowed Cost	\$3,099
Corrective Action	The detailed transactions will be scrutinized to ensure every line item is allowable, all others will be eliminated from the facilities settlement reporting.
Completion Date	June 30, 2022
Person Responsible	Lisa Krosnicki, Chief Financial Officer, CEISD Accountant, Lead

Exception 4 Page 6	Unallowable Federally Funded Costs Reported on Quarterly Financial Reports
Criteria	Medicaid Provider Manual, School Based Services, Section 5.2; Administrative Outreach Program Claims Development, Section 2.3.A.
Disallowed Cost	\$21,805
Corrective Action	The Chief Financial Officer will double check split funded staff, federally funded staff and ensure those costs are not included in the payroll and benefits reported on the quarterly AOP report.
Completion Date	September 30, 2022
Person Responsible	Lisa Krosnicki, Chief Financial Officer, CEISD Accountant

Exception 5 Page 8	Insufficient Controls Over the Financial Management System
Criteria	Medicaid Provider Manual, School Based Services, Section 3.3; Administrative Outreach Program Claims Development, Section 2.1
Disallowed Cost	N/A
Corrective Action	All staff attend and will continue to attend ongoing PCG training for SPL and facilities reporting to receive the most updated information.
Completion Date	June 30, 2022
Person Responsible	Lisa Krosnicki, Chief Financial Officer, CEISD Accountant

EXCEPTIONS, RECOMMENDATIONS, AND CORRECTIVE ACTIONS

Exception 1
Unallowable Costs Reported on Medical Cost Report

Condition

Charlevoix – Emmet Intermediate School District included salary and benefit costs in the Medical Cost Report for employees that were not included in the direct medical staff pool list.

Criteria

The Medicaid Provider Manual, School Based Services, Random Moment Time Study Chapter, Section 3.3 states:

When providing the staff pool list of those eligible to participate in the time studies, school districts must certify the list of participants and activities to be claimed to ensure that all appropriate personnel are submitted and that appropriate credentials are in place for billing Medicaid

Exception

During the review of the Medical Cost Report, we compared employee costs reported to the employee names and job titles on the staff pool list. We identified costs reported for one physical therapist on the Medical Cost Report that was included on the AOP staff pool list and not included in direct medical staff pool list. Employees must be included on the direct medical cost pool list to have the costs reported on the Medical Cost Report.

Disallowed Cost

Total disallowed costs = \$114,745

Unallowable Salaries	Unallowable Benefits	Indirect 18.10%	Total
\$64,004	\$33,155	\$17,586	\$114,745

Recommendation

We recommend that CEISD implement a system of oversight for the staff pool list and Cost Report to ensure only costs for employees are reported on the correct staff pool list are claimed on the Cost Report in compliance with the Medicaid Provider Manual.

Corrective Action Plan

Charlevoix-Emmet ISD will download and review the detail for payroll posted to the general ledger accounts. This detailed payroll download for the fiscal year will be compared to the staff pool list for the fiscal year. As this audit was for the fiscal year ended 06/30/2018, this check and balance will not be in place until the 06/30/2022 fiscal year. The report for fiscal year 2022 is in progress.

Completion Date

June 30, 2022

Responsible Individual

Lisa Krosnicki, Chief Financial Officer and Accountant, Lead

Exception 2**Unallowable Employee Benefit Costs Reported on Transportation Cost Report****Condition**

Charlevoix-Emmet Intermediate School District reported unallowable employee benefit costs on its Transportation Cost Report.

Criteria

The Medicaid Provider Manual, School Based Services, Section 6.2A states:

Specialized transportation costs reported on the Michigan Department of Education Transportation Expenditure Report (form SE-4094) are the only costs associated with the special education buses, taxis or private vehicles used for the specific purpose of transporting only special education children. This report does not include any federal dollars.

Medicaid allowable specialized transportation costs include the following costs from the SE-4094: Salaries (Bus Drivers, Aides); Employee-Benefits (Bus Drivers and Aides only); Purchased Services; Supplies (Gasoline/Fuel, Oil/Grease, Tires/Batteries, Other expense/Adjustments); and Bus Amortization.

Exception

During our review, we identified that CEISD reported unallowable employee fringe benefit costs for Other Pupil Support and Other Central Services employees on its Transportation Cost Report. CEISD did not have sufficient controls and procedures in place to ensure that only benefit costs for bus drivers and aides are reported on the Transportation Cost Report.

Disallowed Cost

Total disallowed costs = \$90,193

Unallowable Benefits	Indirect Costs 18.10%	Total
\$76,370	\$13,823	\$90,193

Recommendation

We recommend that the CEISD implement policies and procedures to ensure costs are reported in compliance with the Medicaid Provider Manual regarding allowable costs reported on the Transportation Cost Report.

Corrective Action Plan

The trial balance general ledger detail will continue to be used; however, the transporter benefits will only be included in the Facilities Settlement report. The above was done without knowledge the full cost of the transportation support staff would not be allowable. The costs for transportation support will be eliminated from the facilities settlement reporting.

Completion Date

June 30, 2022

Responsible Individual

Lisa Krosnicki, Chief Financial Officer and Accountant, Lead

Exception 3

Unallowable Other Supply/Repair Parts Reported on the Transportation Cost Report

Condition

Charlevoix-Emmet Intermediate School District reported unallowable costs on the Other Supply/Repair Parts line item on its Transportation Cost Report.

Criteria

The Medicaid Provider Manual, School Based Services, Section 6.2A states:

Specialized transportation costs reported on the Michigan Department of Education Transportation Expenditure Report (form SE-4094) are only the costs associated with the special education buses, taxis or private vehicles used for the specific purpose of transporting only special education children. This report does not include any federal dollars.

The SE-4094 instructions for Other Supply/Repair Parts provides: “the cost of vehicle repair parts and other supplies (i.e., antifreeze, deicers, etc.) for pupil transportation vehicles...”

Exception

During our review, we noted that CEISD reported unallowable costs on its Transportation Cost Report as supplies and repair parts for pupil transportation. We identified the following unallowable expenses as not being allowable vehicle costs:

Exceptions	Amount
Tablet and Cases	\$98.76
Phone Case	\$36.84
CD Players	\$202.76
AA Batteries	\$11.78
Transportation Jackets	\$1,800.00
Headphones	\$19.66
Gift Bags	\$42.00
Plow Blade	\$412.34
Total	\$2,624.14

The CEISD did not have sufficient controls in place to ensure that only allowable expenses were reported on the Transportation Cost Report.

Disallowed Cost

Total disallowed costs = \$3,099

Unallowable Costs	Indirect Costs 18.10%	Total
\$2,624	\$475	\$3,099

Recommendation

We recommend that the CEISD implement the proper controls, policies, and procedures to ensure that only allowable costs are reported on the Transportation Cost Reports to ensure compliance with the Medicaid Provider Manual and SE-4094 instructions.

Corrective Action Plan

The trial balance general ledger detail will continue to be used to include only allowable costs for the Facilities Settlement report. The detailed transactions will be scrutinized to ensure every line item is allowable, all other will be eliminated from the facilities settlement reporting.

Completion Date

June 30, 2022

Responsible Individual

Lisa Krosnicki, Chief Financial Officer and Accountant, Lead

**Exception 4
Unallowable Federally Funded Costs Reported on Quarterly Financial Reports**

Condition

Charlevoix-Emmet Intermediate School District reported unallowable costs from federal funds on the Quarterly Financial Reports.

Criteria

The Medicaid Provider Manual, School Based Services Administrative Outreach Program Claims Developments, Section 2.3.A states:

This consists of the actual costs incurred for the quarter being claimed, such as salaries, overhead, etc. Each participating ISD/DPS must certify that the claims they submit to MDHHS contain sufficient non-Federal (State, county or local) funds to match requirements and that the claim only includes actual costs. (emphasis added)

Exception

During our review, we identified that CEISD included costs for two employees (salaries and benefits) in the Quarterly Financial Reports that were associated with a Federal funded grant program. Costs that are Federal funds, pass through Federal funds from a State or local agency or used as a local match to Federal funds, are not eligible to be claimed for Medicaid. Grant codes #723 (Early Headstart) and #757 (2019-20 IDEA part C Infant and Toddler Formula) were identified by CEISD as Federal funds and therefore may not be claimed on the Quarterly Financial Reports.

Disallowed Cost

Total disallowed costs = \$21,805

Unallowable Wages/ Benefits	Indirect 18.10%	Total
\$18,463	\$3,341	\$21,805

Recommendation

We recommend that the CEISD implement policies and procedures to ensure that the Quarterly Financial Reports do not include federally funded costs.

Corrective Action Plan

The accountant reporting the quarterly payroll and benefit costs will provide a final download of report totals to the Chief Financial Officer for review. The Chief Financial Officer will double check split funded staff, federally funded staff and ensure those costs are not included in the payroll and benefits reported on the quarterly AOP report.

Completion Date

September 30, 2022

Responsible Individual

Lisa Krosnicki, Chief Financial Officer and Accountant

Exception 5

Insufficient Controls Over the Financial Management System

Condition

Charlevoix-Emmet Intermediate School District did not have sufficient controls over its financial management system to ensure that all its School Based Services Program expenses complied with Federal standards and regulations.

Criteria

Title 2 CFR 200.302 states that the non-Federal entity's financial management system must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to Federal statutes, regulations, and the terms and conditions of the Federal award. The financial management system of each non-Federal entity must provide for accurate, current, and complete disclosure of the financial results of each Federal award or program.

The Medicaid Provider Manual, School Based Services, Section 3.3; and the Administrative Outreach Program Claims Development, Section 2.1 state,

Each ISD must establish an implementation plan that included explicit quality control review mechanisms to ensure full staff training and compliance, accuracy and completeness of the RMTS sample frame (designated employees), adherence to MDHHS-published methodology, editing of all moments for completeness and consistency, and accurate financial and staffing reports.

Title 2 CFR 200.303 states that the non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with the Federal statutes, regulations, and the terms and conditions of the Federal award.
- (b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in an audit finding.

Exception

CEISD's insufficient controls over its financial management system contributed to the issues noted above and identified in Exceptions 1 through 4.

Recommendation

We recommend that CEISD implement sufficient controls over its financial management system to ensure compliance with Federal regulations and the Medicaid Provider Manual.

Corrective Action Plan

The Medicaid manual is used to support staff being added and deleted from the staff pool listing. The added check and balance is from the quarterly reporting to the final settlement and ensuring all staff reported on the SE-4096 have been approved for reporting through the Staff Pool List, and consequently on the Facilities Settlement report. All staff attend and will continue to attend ongoing PCG training for SPL and facilities reporting to receive the most updated information.

Completion Date

June 30, 2022

Responsible Individual

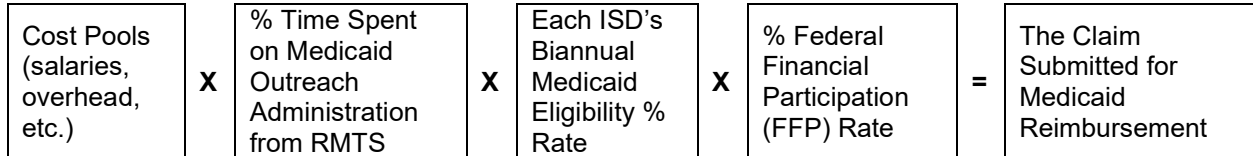
Lisa Krosnicki, Chief Financial Officer and Accountant

FUNDING METHODOLOGY

The Administrative Outreach Program (AOP) and Direct Medical Services Program are companion programs. The AOP provides reimbursement for administrative activities required to identify, manage, refer, and develop programs for children at risk of academic failure due to an underlying health issue, including mental health. The Direct Medical Services Program reimburses schools for the cost of providing direct medical services to the special education Medicaid student population.

AOP

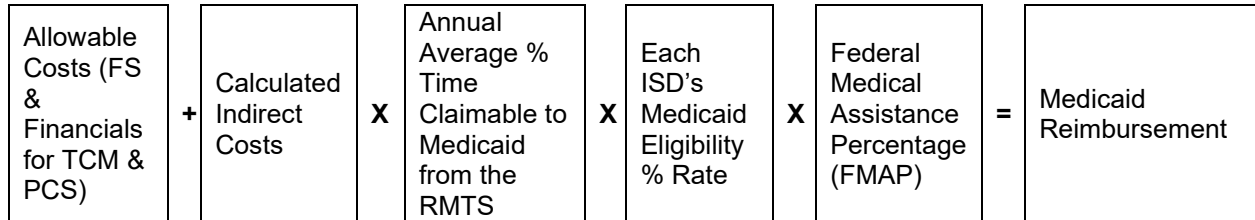
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), on quarterly financial reports by each of the Local Education Agencies (LEAs). PCG combines the costs per Intermediate School District (ISD), applies various allocation percentages and submits the AOP claim directly to Michigan Department of Health and Human Services (MDHHS) for review, processing, and payment each fiscal quarter. Claim development is based on a “pool” of costs, primarily salaries, incurred by the school districts for individuals that engage in Medicaid-type activities on a regular basis. The percentage of effort spent on Medicaid-type activities is identified by a Random Moment Time Study (RMTS) that is also conducted by PCG. The final amount claimed for Medicaid reimbursement is equal to:



Direct Medical Services

School Based Services (SBS) providers are required to submit Direct Medical Services claims for all Medicaid covered allowable services. These claims do not generate a payment but are required by the Federal Centers for Medicare and Medicaid Services (CMS) in order to monitor the services provided, the eligibility of the recipient, and provide an audit trail. These claims are submitted and processed through the Community Health Automated Medicaid Processing System (CHAMPS); however, the procedure code fee screens are set to pay zero.

SBS providers receive Direct Medical Services funding from interim monthly payments based on prior year actual costs. The interim payments are reconciled on an annual basis to the current year costs by the MDHHS Hospital and Clinic Reimbursement Division (HCRD). Cost reporting and reconciliation are based on the school fiscal year which is July 1 through June 30 of each year. Annually, ISDs and LEAs submit allowable costs to MDHHS in CHAMPS on the Facility Settlement (FS) system. The final amount claimed for Medicaid reimbursement is equal to:



The cost settlement is accomplished by comparing the interim payments to the annual Medicaid allowable costs. Any over/under settlement payments are made.

Transportation

Specialized transportation costs are the costs associated with the special education buses used for the specific purpose of transporting special education students only. On an annual basis, the cost per trip is calculated by dividing the total reimbursable cost submitted on the Facility Settlement cost report by the total special education one-way transportation trips reported by the ISD in CHAMPS. The Medicaid reimbursable amount is obtained by multiplying the cost per trip by the number of "allowable" one-way trips from CHAMPS. An "allowable" one-way trip is provided to a Medicaid-eligible beneficiary and fulfills all the following requirements:

- Documentation of ridership is on file;
- The need for specialized transportation service is identified in the Individualized Education Program (IEP) or Individual Family Service Plan (IFSP); and
- A Medicaid-covered service is provided on the same date of the trip.

The cost settlement is accomplished by comparing the monthly interim payments to the annual Medicaid allowable specialized transportation costs. The cost settlement amount for the specialized transportation is combined with the cost settlement amounts for Direct Medical, Targeted Case Management (TCM), and Personal Care Services (PCS). Any over/under adjustments are processed as one transaction.

SCOPE AND METHODOLOGY

We examined the ISD's and LEAs' records and activities for the period July 1, 2017 through June 30, 2018.

Our audit procedures included the following:

- Performed virtual fieldwork at the Charlevoix-Emmet Intermediate School District and reviewed 1 of 14 LEAs: Public Schools of Petoskey.
- Reviewed the School districts' Single Audits and Financial Statement Audits and relied upon the independent auditors' report on internal controls to identify potential weaknesses that might affect our review.
- Reviewed payroll documentation, certification/licensure, and all required supporting documentation for a sample of Direct Medical staff for Social Workers and Occupational Therapists.
- Reviewed payroll documentation, and all required supporting documentation for a sample of Administrative Outreach Program personnel.
- Reviewed transportation cost reports, payroll documentation, and all required supporting documentation for a sample of transportation costs.
- Verified that reported costs were directly related to individuals included in the RMTS, incurred during the sample period, did not contain duplicate costs, were not claimed as costs of other Federal projects, and were otherwise allowable under the federal regulations in Office of Management and Budget (OMB) Uniform Guidance at 2 CFR 200.

GLOSSARY OF ABBREVIATIONS AND TERMS

GENERAL ABBREVIATIONS	
AOP	Administrative Outreach Program
CHAMPS	Community Health Automated Medicaid Processing System
CMS	Centers for Medicare and Medicaid Services
RESA	Educational Service District
FFP	Federal Financial Participation
FMAP	Federal Medical Assistance Percentage
FS	Facility Settlement
IDEA	Individuals with Disabilities Education Act
IEP	Individual Education Plan
IFSP	Individualized Family Services Plan
ISD	Intermediate School District
LEA	Local Education Agency
MDE	Michigan Department of Education
MDHHS	Michigan Department of Health and Human Services
OMB	Office of Management and Budget
PCG	Public Consulting Group
PCS	Personal Care Services
RMTS	Random Moment Time Study
SBS	School Based Services
TCM	Targeted Case Management

SCHOOL ABBREVIATIONS	
CEISD	Charlevoix-Emmet Intermediate School District
PSP	Public Schools of Petoskey